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LOAN NUMBER 1420 ME

Guarantee Agreement

(Baja California Tourism Project)

between

UNITED MEXICAN STATES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 5, 1977

GUARANTEE AGREEMENT

AGREEMENT, dated July 5, 1977, between UNITED MEXICAN STATES (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by the Loan Agreement of even date herewith between the Bank and Nacional Financiera, S.A. (hereinafter called the Borrower) the Bank has agreed to make to the Borrower a loan in various currencies equivalent to forty-two million dollars ($42,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank dated March 15, 1974, with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Loan and Guarantee Agreements being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in Section 1.02 of the Loan Agreement have the respective meanings therein set forth.

ARTICLE II

Guarantee; Provision of Funds

Section 2.01. Without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for the carrying out of the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

ARTICLE III

Execution of Certain Parts of the Project

Section 3.01. The Guarantor shall carry out or cause to be carried out Part B.1 and Part C.1 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices and shall provide promptly, as needed, the funds, facilities, services and other resources required for the purpose.

Section 3.02. The Guarantor shall enter into the contractual arrangements referred to in Section 3.02 of the Loan Agreement with the Borrower, and except as the Bank shall otherwise agree, the Guarantor shall not amend or fail to enforce any provision of such arrangements.

Section 3.03. The Guarantor shall take or cause to be taken all such action as shall be necessary to ensure that the Project Areas are provided at all times with adequate telecommunication and aviation services and an adequate supply of water and electricity, and that the education and health facilities in the Project Areas are adequately staffed and maintained.

Section 3.04. The Guarantor shall:

(a) take or cause to be taken all such action as shall be necessary to ensure that scheduled passenger service will be provided to Loreto and San José del Cabo by domestic airlines

on domestic segments of international routes to and from major tourism generating countries not later than the date on which the Project hotels and the hotels referred to in Section 3.07 (a) (i) of this Agreement start operating; and

(b) use its best efforts to include or retain, as the case may be, Loreto and San José del Cabo in future bilateral agreements on air transportation.

Section 3.05. The Guarantor shall take or cause to be taken all such action as shall be necessary to ensure that, not later than June 30, 1978: (a) land use and zoning regulations acceptable to the Bank will be adopted for the Project Areas and that, thereafter, such regulations will be enforced; and (b) land use and zoning regulations appropriate to protect the Project will be adopted for the land immediately surrounding the Project Areas with the approval of the State of Baja California Sur and the municipalities concerned and that, thereafter, such regulations will be enforced.

Section 3.06. The Guarantor shall cause its departments or agencies responsible for carrying out the Parts of the Project referred to in Section 3.01 of this Agreement to participate with the Borrower, as trustee of FONATUR, in the preparation and review of the critical path chart referred to in Section 3.08 of the Loan Agreement.

Section 3.07. (a) Except as the Bank shall otherwise agree, the Guarantor shall take or cause to be taken all such action as shall be necessary, including the provision of adequate financing, to ensure:

(i) construction and operation of 150 hotel rooms in the Loreto Tourism Area and 150 hotel rooms in the San José del Cabo Area in addition to the hotel rooms included in the Project; the operation of such rooms to start at the same time as that of the Project hotels;

(ii) not later than three years after the Project hotels start to operate, construction and operation of 600 hotel rooms in the Loreto Tourism Area and 600 hotel rooms in the San José del Cabo Area in addition to those referred to in sub-paragraph (i) of this Section; and

(b) in order to make the Project economically viable, the Guarantor shall make its best efforts to have in operation, not later than seven years after the Project hotels start to operate, about 900 hotel rooms in the Loreto Tourism Area and about 900 hotel rooms in the San José del Cabo Area in addition to those referred to in paragraph (a) of this Section.

Section 3.08. (a) The Guarantor shall furnish to the Bank, for its approval and promptly upon their preparation, the final designs, plans, specifications and supporting documents for the Parts of the Project to be carried out by the Guarantor, and any material modification thereof or additions thereto, in such detail as the Bank shall request.

(b) The Guarantor: (i) shall maintain records adequate to record the progress of the Parts of the Project carried out by the Guarantor (including the cost thereof) and to identify the goods and services financed out of the proceeds of the Loan transferred to the Guarantor by the Borrower, and to disclose the use thereof in the Project; (ii) shall enable the Bank's accredited representatives to visit the facilities and construction sites included in such Parts of the Project and to examine the goods financed out of such proceeds of the Loan and any relevant records and documents; and (iii) shall furnish to the Bank all such information as the Bank shall reasonably request concerning such Parts of the Project, the expenditure of such proceeds of the Loan and the goods and services financed out of such proceeds.

Section 3.09. Except as the Bank shall otherwise agree, contracts for the purchase of goods or for civil works to be financed out of the proceeds of the Loan transferred to the Guarantor by the Borrower shall be procured in accordance with the provisions of Schedule 4 to the Loan Agreement.

Section 3.10. The Guarantor shall take all such action as shall be necessary to assist the Borrower, as trustee of FONATUR, in the acquisition of the land and rights in respect of land referred to in Section 3.13 of the Loan Agreement.

Section 3.11. The Guarantor shall maintain and operate the facilities included in the Parts of the Project to be carried out by the Guarantor with due diligence and efficiency and in conformity with sound engineering, administrative and financial practices.

Section 3.12. The Guarantor shall take such action as shall be necessary to satisfy adequately the staff requirements of the hotels in the Project Areas.

Section 3.13. The Guarantor shall take such action as shall be appropriate to ensure that:

(a) The investment cost of the water supply and sewerage facilities included in the Project is recovered as part of the price of land sold by the Borrower, as trustee of FONATUR, in the Project Areas or by the charges specified in paragraph (b) of this Section; and

(b) The users of such facilities pay such water and sewerage charges as shall be required to cover: (i) the costs of operation and maintenance of such facilities, including depreciation based on a reasonable valuation of all headworks and equipment costs; (ii) increases in working capital; and (iii) the financing of minor extensions to such facilities.

ARTICLE IV

Other Covenants

Section 4.01. (a) It is the policy of the Bank, in making loans to, or with the guarantee of, its members not to seek, in normal circumstances, specific security from the member concerned but to ensure that no other external debt shall have priority over its loans in the allocation, realization or distribution of foreign exchange held under the control or for the benefit of such member. To that end, if any lien shall be created on any governmental assets (as hereinafter defined), as security for any external debt, which will or might result in a priority for the benefit of the creditor of such external debt in the allocation, realization or distribution of foreign exchange, such lien shall, unless the Bank shall otherwise agree, ipso facto and at no cost to the Bank, equally and ratably secure the principal of, and interest and other charges on, the Loan, and the Guarantor, in creating or permitting the creation of such lien, shall make express provision to that effect; provided, however, that, if for any constitutional or other legal reason such provision cannot be made with respect to any lien created on assets of any of its political or administrative subdivisions, the Guarantor shall promptly and at no cost to the Bank secure the principal of, and interest and other charges on, the Loan by an equivalent lien on other governmental assets satisfactory to the Bank.

(b) The foregoing undertaking shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

(c) As used in this Section, the term "governmental assets" means assets of the Guarantor, of any of its political subdivisions, or of any agency; and the term "agency" means any agency or instrumentality of the Guarantor or of any political subdivision of the Guarantor and shall include any institution or organization which is owned or controlled directly or indirectly by the Guarantor or by any political subdivision of the Guarantor or the operations of which are conducted primarily in the interest of or for account of the Guarantor or any political subdivision of the Guarantor.

Section 4.02. The Guarantor shall: (a) maintain, or cause to be maintained, separate accounts to reflect in accordance with consistently maintained sound accounting practices the financial situation of the Parts of the Project to be carried out by the Guarantor; (b) cause such accounts to be audited annually, applying sound auditing principles; (c) promptly make available to the Bank copies of such accounts, as so audited; and (d) furnish to the Bank such other pertinent information concerning such accounts as the Bank shall reasonably request from time to time.

ARTICLE V

Representative of the Guarantor

Section 5.01. Nacional Financiera S.A. is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The Guarantor hereby agrees that all notices and requests given or made by the Bank to the Borrower shall be deemed to have been given or made also to the Guarantor.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

UNITED MEXICAN STATES
By: NACIONAL FINANCIERA, S.A.

By /s/ D. Ibarra Muñoz
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ E. Lerdau
Director
Country Programs Lepartment
Latin America and the Caribbean
Regional Office